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Explanation of—

VARIABLE PAYMENT PLAN FOR REPAYING TENANT PURCHASE LOAN

This Pamphlet Shows How Tenant Purchase Borrowers Are Protected By A Payment Plan Based On Net Cash Income

U. S. DEPARTMENT OF AGRICULTURE
U.S. Farm Security Administration
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REPAYMENT OF TENANT PURCHASE LOAN

UNDER THE

VARIABLE PAYMENT PLAN

If you apply for and receive a Tenant Purchase loan, you will repay that loan under the Variable Payment Plan. For that reason, you will need to understand the provisions of that plan. The following questions and answers will give you helpful information.

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1. What is the Variable Payment Plan?

Under this plan the amount you will be expected to pay each year will depend upon your net cash income. This will be shown by your Family Record Book in which you have listed both your income and expenses. If your net cash income is large, you will be expected to make a large payment. If it is little or nothing, you will be expected to pay little or nothing, but the payments under this plan must average out so that they will retire both the principal and interest of your debt in 40 years.

2. How does the Variable Payment Plan differ from the plan customarily used for paying off land mortgages?

Under the customary plan, a borrower would be expected to pay a fixed amount each year regardless of income. In order to retire both principal and interest in 40 years, this amount would be 4.326 percent of the loan. For example, a $5,000 loan will require a payment of $216 each year.

3. What is the chief advantage of the Variable Payment Plan?

Under this plan you may pay as you are able. You need not worry about your loan becoming delinquent and subject to foreclosure if you have a bad year or a series of bad years. You can pay off your debt just as fast as you want to under the Variable Payment Plan, except that the law does not permit final payment in less than 5 years without special approval.

4. What will be your chief obligation under the Variable Payment Plan?

You must pay more in good years, so that you can pay less in bad years. Unless you pay more in good years, your payments will not average out so that they will retire the principal and interest of your debt in 40 years.

5. What is meant by being "up to schedule," "ahead of schedule," "behind schedule," under the Variable Payment Plan?

You will be "up to schedule" when you have paid exactly the same amount that you would have paid on a fixed basis, at 4.326 percent of the loan annually; "ahead of schedule" if you have paid more than that, or "behind schedule" if you have paid less than that. The desirable thing under the Variable Payment Plan is to get well ahead of schedule so that you will have a margin of safety to carry you over bad years.

6. What part of my net income must I pay under the Variable Payment Plan?

(*a*) If you are more than 2 years ahead of schedule, you will not be required to pay any specified amount on your loan. No doubt, however, you will desire to maintain or increase your margin of safety by applying some of your net cash income on your debt.

(*b*) If you are not ahead of schedule in a given year and your net cash income will not place you ahead of schedule, you will be expected to pay all of your net cash income. This should be no hardship because your necessary living and operating expenses are allowed first, so long as they are in line with your farm and home management plan.

(*c*) If you are 2 years or less than 2 years ahead of schedule, you will be expected to pay all your net cash income unless it is advisable to hold back a part of your net cash income for next year's operating expenses and for building up capital.

7. *Under what conditions will my loan become delinquent?*

Under the Variable Payment Plan your loan will become delinquent only when you fail to pay the amount determined to be due any particular year. Under the Variable Payment Plan you might be "ahead of schedule" part of the time and "behind schedule" part of the time, but being behind schedule will not make your loan delinquent. It is only failure to pay the amount requested that makes your loan delinquent.

8. *Will I be obliged to keep accurate records under the Variable Payment Plan?*

Yes. When you sign a "Loan Agreement and Request for Funds" you agree "to keep such records and accounts as may be prescribed by the Farm Security Administration." You will be required to keep the Farm Security Administration Record Book, in part to protect the Government, but primarily for your own benefit. Your record book will help you greatly in your efforts to plan wisely and operate efficiently. The Farm and Home Supervisors will give you any help you may need in getting started with your record book.

9. How about saving up money for next year's operating expenses?

When you are ahead of schedule, or the amount which you can pay in a given year will place you ahead of schedule, you may save up a part of your net cash income for next year's operating expenses, if this is the wisest use of the money. After you once get 2 years ahead of schedule under the Variable Payment Plan, you can increase your operating capital rapidly. Until you are up to schedule, you will be expected to pay all your net cash income rather than hold it back to meet next year's operating expenses. You are eligible for a rehabilitation loan from the Farm Security Administration for operating expenses if you need one.

10. Will the Variable Payment arrangement force me to pay for my loan in less than 40 years?

No. In the use of the Variable Payment Plan it is not the intention of the Farm Security Administration to deprive any borrower of the privilege of utilizing the full 40-year period allowed to retire his debt. On the contrary, the aim is merely to assist the borrower in creating a margin of safety to protect his loan at all times against delinquency.

11. Under what circumstances will the privileges of the Variable Payment arrangement be withdrawn from me?

The Farm Security Administration reserves the right to transfer you from the Variable Payment Plan to a Fixed Payment Plan if the records you keep in your Family Record Book are too incomplete or inaccurate to determine your net cash income; if you fail to pay the amount for which you are billed; or if for 2 or more years you fall behind schedule 20 percent more than the average of all borrowers in your county.

12. *What happens if the privileges of the Variable Payment Plan are withdrawn?*

You will be transferred to a Fixed Payment Plan, and be expected to pay 4.326 percent of your loan each year regardless of your income. Under that plan your account will become delinquent in any year that you fail to pay the 4.326 percent payment. It will, therefore, be greatly to your advantage to retain the benefits of the Variable Payment Plan by complying with your Variable Payment Agreement.

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